

October 2010

Project Summary and Feedback Statement

Transfers of Financial Assets

Amendments to IFRS 7 *Financial Instruments: Disclosures*

At a Glance

We, the International Accounting Standards Board (IASB), amended IFRS 7 *Financial Instruments: Disclosures* in October 2010 by issuing *Transfers of Financial Assets*.

The objective of the amendments is to improve the quality of the information reported about:

- financial assets that have been ‘transferred’ but are still, at least partially, recognised by the entity because they do not qualify for derecognition; and
- financial assets that are no longer recognised by an entity, because they qualify for derecognition, but with which the entity continues to have some involvement.

The amendments will also make it easier to assess whether an entity has undertaken transactions to achieve a particular accounting result close to the end of a financial period—so-called ‘window dressing’.

IFRS 7 does not prevent entities from disclosing the type of information these amendments will require. But it is clear that users of financial statements, and other interested parties, think the quality of disclosures has not been adequate. These amendments address those concerns.

Background

These amendments to IFRS 7 are designed to improve the transparency of off balance sheet securitisations and similar transfer transactions.

We are responding to requests from users of financial statements, regulators—including the Financial Stability Board—and others. Before finalising the new requirements we considered over 120 comment letters, had over 50 meetings with interested parties and discussed the proposals with prudential regulators. Round tables were held in Toronto, Tokyo and London.

The amendments also result in a closer alignment of IFRSs and US generally accepted accounting principles (GAAP) disclosure requirements for transferred financial assets.

We have been considering the derecognition requirements in IAS 39 *Financial Instruments: Recognition and Measurement* since April 2005, when we added this topic to our research agenda.

In 2006 the project was included in our convergence plan with the US Financial Accounting Standards Board (FASB), to address the differences between IFRSs and US GAAP requirements.

Unfortunately, the global financial crisis forced the two boards to take separate strategies to improve our respective requirements.

In March 2009 we published an exposure draft proposing improvements to the derecognition requirements in IAS 39 and associated disclosure requirements in IFRS 7. The amendments to IFRS 7 that we are issuing now come from that exposure draft.

In parallel with the IASB developing the proposals, the FASB took more urgent steps to address problems with US GAAP, principally to eliminate the concept of a Qualifying Special Purpose Entity (QSPE). The FASB finalised those improved requirements in June 2009, which reduce the differences in accounting outcomes between IFRSs and US GAAP.

Feedback Statement

Scope

The new disclosure requirements apply only to transferred financial assets.

Who is affected?

Financial institutions will be the main types of entity affected by the new requirements.

What are the requirements?

IFRS 7 currently requires an entity to disclose limited information on transfers of financial assets (principally for transferred assets which did not qualify for derecognition in their entirety). The amendments enhance existing required disclosures for transferred financial assets that are not derecognised, and require additional disclosures on an entity's continuing involvement in derecognised assets.

An entity that has transferred financial assets will be required to disclose information that enables users of its financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

Entities must also provide additional disclosures if transfer activity is not evenly distributed in a reporting period (eg if transfer activity is concentrated around the end of reporting periods). This requirement addresses concerns over 'window-dressing' of the balance sheet.

How extensive do we expect the disclosures to be?

Each entity will need to assess how it will meet the disclosure objectives. However, we do not anticipate that the requirements will significantly affect the size of most annual reports. IASB staff believe that an entity with extensive financial asset transfers should be able to meet the disclosure objectives and explain the risks associated with those transfers in two or three pages.

Feedback from respondents

Scope

Respondents' comments

Some respondents questioned why the proposals differentiated between assets or liabilities that result from transferring a financial asset (such as a right or obligation to repurchase the transferred asset at a future date) and equivalent rights or obligations acquired separately. They noted that the proposals would lead to different disclosure requirements depending on how the assets or liabilities were initiated.

Our response

We proposed the disclosures in response to widespread calls from investors, regulators and others to improve the information about the effects of transfer transactions in the situation that the transferor retained some continuing interest or exposure to the transferred asset.

In our discussions with investors, both before and after publication of the exposure draft, it has been clear that they lacked information about the effects of transfer transactions when the transferor retains some residual exposure to the transferred assets.

During the global financial crisis, many investors were concerned that they were unable to understand the possible future effects of continuing involvement in a transferred asset. Such a possible effect could include a right or obligation of the transferor to repurchase the transferred asset at a future date, which could have significant implications for the future cash outflows and liquidity position of the transferor. The finalised disclosures allow investors to identify and analyse those possible effects.

We acknowledge that the argument advanced by some respondents that the requirements should not differentiate between those assets or liabilities that are a consequence of transferring financial assets and those acquired separately. However, we believe that the finalised disclosures respond directly to a valid information need of investors and others.

Feedback from respondents continued

Disclosure objectives

The exposure draft proposed two new disclosure objectives. Generally, respondents supported those objectives, but suggested some improvements to how those objectives should be written.

Some respondents also emphasised the importance of ensuring that the disclosure objectives are positioned prominently in any final requirements. Those respondents observed that high quality reporting comes from meeting the objectives rather than complying with a disclosure checklist.

We agreed with both points.

We improved the drafting and the objectives are positioned prominently in the final requirements.

Excessive disclosures

The exposure draft proposed disclosure of the fair value of derecognised assets when the transferor has continuing involvement in the transferred assets.

Some respondents said that this information would provide little or no useful information to investors, and would be onerous to apply.

After considering the comments from respondents, and of investors in our outreach activities, we decided that the disclosures proposed would be onerous and would not provide information sufficiently useful to justify the burden of obtaining the information.

Guidance

Some respondents asked that the IFRS should include guidance about the type of information that would be relevant for different types of continuing involvement (for example, servicing and repurchase option agreements).

We agreed that adding guidance to the IFRS would improve the proposals. Accordingly, the amendments includes guidance about how to categorise the disclosures on the basis of the type of continuing involvement.

Next steps

The exposure draft published in March 2009 included proposals to improve the derecognition requirements of IAS 39. Two models were presented, a primary view and an alternative view.

The primary view was not well supported. Instead, there was qualified support for the alternative model and respondents encouraged us to develop that model further. At the same time, our extensive outreach, and comments from respondents and national standard-setters, made it clear that many thought that the existing IFRS derecognition requirements had withstood well the global financial crisis.

When we reviewed our agenda in May 2010, and prioritised the major projects with the FASB, we amended our plans for improving derecognition requirements.

We decided that the most pragmatic and effective way of improving the financial reporting of derecognised financial assets was to address the disclosure deficiencies that have been identified.

The next steps in the project are:

- We will relocate the derecognition requirements currently in IAS 39 into IFRS 9 *Financial Instruments*. The requirements will be unchanged. We will complete this step before the end of 2010.
- We will continue to monitor the accounting and reporting of transferred financial assets and liabilities, particularly in the light of the recent changes to US GAAP before deciding whether to proceed with a more fundamental revision to the derecognition model.
- We will consider retaining a project on derecognition when we set our new agenda. In setting that agenda we will consult the IFRS Advisory Council, the IFRS Foundation Trustees and more broadly, as part of the first of our three-yearly public agenda consultations. That public consultation will begin before the end of 2010.

International Accounting Standards Board (IASB)

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